

Addendum A
Significant Deficiencies

1. Extra-classroom Activity

Extra-classroom activity funds, which are authorized by the New York State Department of Education, are an integral part of the educational program of the District. As part of our audit, we have reviewed, evaluated and tested the Extra-classroom Activity Funds of the District. The result of our tests disclosed that the following areas were not in compliance with the regulations of the Commissioner of Education.

A. Inactive Clubs

We noted that eleven clubs had no financial activity during the current fiscal year. State Education Regulations provide that the funds of a discontinued activity shall automatically revert to the account of the general student organization or the student council and shall be expended in accordance with the organization's constitution.

Recommendation

We suggest that a determination of the status of the clubs with no financial activity be made to determine the proper disposition of funds. This will deter all clubs from becoming inactive in future years.

Response

The Assistant Superintendent for Business is working with the extra-classroom activity treasurers and building principals to identify accounts that do not belong in the ECA fund either because they are dormant or because the purpose of the activity is not that of a bona fide club on an ongoing basis. For example, scholarship funds will no longer be accounted for in the ECA but will instead be accounted for in an Expendable Trust. This includes the preparation and dissemination of a report on a monthly basis to the board of education by the central treasurers of the funds.

B. Activity Funds below 6th Grade

We also determined that there is an activity fund established for below sixth grade.

Recommendation

We advise eliminating the Extra-classroom activity funds below sixth grade.

Response

The account that was holding elementary school funds was closed and the proceeds transferred to the General Fund.

C. Cash Balances

We noted a deficit cash balance in the Special Events/Library Activity Fund account at the end of the current fiscal year.

Recommendation

We suggest that the activity of each club be monitored on a monthly basis to assure that only the funds deposited within each club is disbursed for that club's activities.

Response

We have closed two of the "Special Events" accounts in the high school ECA which were holding funds not related to club activities and we will continue to monitor this activity on a monthly basis.

2. School Lunch Fund

During our audit it was noted that daily log sheets summarizing the quantity of meals served to students did not agree with daily cashier reports. Also, the Administrative office did not retain all copies of the daily log sheets.

Recommendation

We recommended reconciliations be performed between the daily log sheets and the cashier reports on a daily basis. All daily log sheets should be filed in the Administrative office of the District.

Response

The School Lunch Fund will be a significant focus for us this year. We engaged the services of a consultant and will be acting upon recommendations which include training for the cashiers. We are also considering a recommendation to hire a Food Service Director for the program which has not had adequate administrative leadership for several years.

3. Fund Balance Analysis

Formal Policy

Although the District has projected fund balance in a timely manner beginning January 1st, we noted that the District does not have formal policies and procedures in place to analyze and project the fiscal year end unreserved, undesignated fund balance of the General fund. Advance knowledge of such fund balance allows the Administration and Board of Education to plan for appropriate utilization of any available funds.

Recommendation

We recommend that the District establish policies and procedures whereby a complete fund balance analysis is prepared as of January 1st of each year. This analysis will include existing fund balance, projected operating surpluses or deficits from the current year's operating budget and areas of need in terms of fund balance projections. In this manner, the district's administration and Board of Education will have a timelier and complete understanding of fund balance availability in order to make the requisite determination of its utilization.

Response

The board of education shall develop a policy that codifies the current practice which is to estimate the financial results of the school year starting in January. This estimate will include a complete fund balance analysis with projected operating surpluses or deficits from the current year's operating budget as well as projected excess or under-realized revenues. This will be accomplished by March 2008 by modifying Policy #6000 to read as follows (underlined is new:)

Fiscal Management Goals

The Board of Education recognizes that proper fiscal management provides the basis for the School District's educational program. Accordingly, the Board of Education intends to:

- *Require advance planning through the best possible budget procedures including estimating on a monthly basis beginning in January of each year the fund balance that will be available on June 30,*
- *Explore all practical sources of revenue.....*

Significant Deficiencies Considered as Material Weaknesses

4. Capital Projects Fund

Retained Percentages

Retained percentages, which represent amounts withheld from contractors for completed work pending satisfactory approval of their phase of a construction project, should be classified as expenditures and recorded on the books of account simultaneously with the payment to the contractor. Our audit of the Capital Projects Fund disclosed that this process is not being adhered to and therefore retainages are not recorded.

This recommendation also appeared (Page 12) in the Office of the New York State Comptroller's Capital Projects, Report of Examination, Period Covered: February 1, 2000 - June 30, 2004 issued in June 2007.

Recommendation

Given the sophistication of today's computer systems, these amounts should be recorded simultaneously within the accounts payable process throughout the fiscal year. Any retainage pertaining to completed projects that will not be paid to the vendor should be written off, with Board approval.

Response

The business office will develop by June 30, 2008 a procedure by which the retained percentages from capital projects will be classified as expenditures and recorded on the books of account simultaneously with the payment to the contractor. Any retainage pertaining to completed projects that will not be paid to the vendor will be written off at the appropriate time with board approval.

5. Fund Balance Reserves

A. Employee Benefit Accrued Liability Reserve

School Districts are permitted by *State* Education and General municipal Law to reserve funds for specific purposes. These reserves generally are created through board resolutions by the end of the School District's fiscal year and are funded through board approved transfers from fund balance. During our audit we noted that the Board adopted their current reserves. We also noted that the reserve for employee benefits accrued liability which was established pursuant to General Municipal Law to provide funds for the payment of unused sick time and other forms of payment for accrued leave time granted upon termination or separation from service was in excess of the liability. The School District's liability on the District wide level for accrued time totaled \$453,300, while the fund balance reserve on the fund level was approximately of \$3.4 million.

Recommendation

We recommend that the District review its current reserves to determine appropriate levels and determine whether additional reserves should be approved based on the School District's future needs. We also suggest that, in the future, the employee benefit accrued liability reserve be limited to the District's total liability.

Response

The reserves will be reviewed and in the future limited where necessary. Reducing this reserve will require careful planning so as to not have an unintended long-term financial impact on the district. As an initial response, the Assistant Superintendent for Business will be directed to develop an

estimate of the actual liability and the appropriate reserve and report the result to the Board of Education.

B. Workers' Compensation Reserve

The district-wide financial statement reflects workers' compensation benefit liabilities, which are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred but not reported (IBNR's). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. During our audit, we noted that although the District was self-insured for workers' compensation, the District had a balance of \$200,000 in its workers' compensation reserve at June 30, 2007. This includes the District's reported but unpaid workers' compensation claims provided by the School District's third party administrator. The District has not had an actuary calculate incurred but not reported (IBNR) claims for workers' compensation. Also, the District's liability for workers' compensation claims payable totaled \$41,455 on the government-wide financial statement, while the reserve was \$200,000 in the General Fund, as previously mentioned.

Recommendation

We recommend the District engage the services of an actuary to calculate the incurred but not reported workers' compensation claims to assist in providing an evaluation of potential liability for the utilization of the workers' compensation reserve to fund the District's incurred but not reported claims liability.

Response

The services of an actuary will be required for the calculation of the IBNR (Incurred but Not Reported) claim liabilities. The Assistant Superintendent for Business will be directed to secure these services through an RFP process or other contract as allowed by General Municipal Law. Funds will need to be allocated in the 2008-09 budget for this purpose.

6. Compensated Absences

The Governmental Accounting Standards Board (GASB) has issued Statement No. 16 "Accounting for Compensated Absences". This statement provides that the current portion of the liability for compensated absences for employees retiring by the end of the School District's fiscal year and those which would normally be liquidated with expendable available resources, be recorded as a fund liability. The balance of the liability should be recorded in the Statement of

Net Assets at the entity-wide level. During the course of our audit, we noted \$550,515 was recorded on the fund level as compensated absences payable at June 30, 2006. Through inquiry of management and our substantive audit procedures, it appears that no employees had retired or resigned and were due payouts for unused time at June 30, 2006. As such, these liabilities do not satisfy the due and payable criteria for inclusion in the fund level financial statements. As a result an increase to the fund balance of the General Fund in the amount of \$550,515 was required as of July 1, 2006. Additionally, amounts recorded on the government-wide financial statements were incorrectly recorded. As a result, an increase to the net assets on the government-wide financial statements of \$780,825 was required as of July 1, 2006,

Recommendation

We suggest that the School District record a liability for compensated absences at the fund level for employees which have given notice of their intent to retire by the end of the School District's fiscal year. Additionally, information provided for compensated absences payable on the government-wide statements is generated on an excel spreadsheet from information gathered through the School District's records. This information should be tracked on a monthly or semi-annual basis and provided to management for their review and approval. Any discrepancies should be resolved in a timely manner.

Response

At the direction of BKSD, the compensated absence reserve was liquidated and the funds became part of the General Fund unreserved balance. The business office will work with the Human Resources office semi-annually to accomplish this review and report the results to the board of education.

7. Capital Assets

A. Capital Asset Records

Capital assets (net of accumulated depreciation) amount to \$47,575,854 at June 30, 2007. At the present time, capital asset records are not maintained by the District. The closest record that the District has of its capital assets is the Maximus Appraisal report that was completed for its June 30, 2004 capital assets. However, this report has not been reconciled and rolled forward by the District to its June 30, 2007 financial statements, nor has the integrity of the report been maintained or updated. We recommend that the District maintain detailed capital asset records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for assets. Complete information as indicated below for all capital assets would provide excellent control for the safeguarding of these assets, which are material to the Districts financial statements. Furthermore, better assessment and evaluation could also be made regarding the reliability of certain capital assets and the need for replacements, etc. Specifically, capital asset records should include the following data:

Description of the asset

Cost, voucher number, and vendor name
Date placed in service
Estimated useful life
Depreciation method
Depreciation expense and accumulated depreciation for the year
Date asset retired and selling price if applicable

Recommendation

Maintaining capital asset records is one of the most basic of internal controls that any organization with significant capital assets should have in place. The lack of such a record makes it difficult to ensure that the financial statements are presented fairly as well as ensuring that the proper amount of insurance is in place to protect the District against loss. Because of the severity of the lack of such a record, we consider this to constitute a material weakness in internal controls. Therefore these records should be maintained.

Response

Capital asset records will be maintained.

B. Procedures for Disposal of Capital Assets

The District does not have a formal procedure to ensure that disposals of Capital assets are reported to the accounting department as they occur. This often leads to a situation where capital assets that physically exist within the District and its asset listing are completely out of synch. A formal policy to ensure the reporting of capital asset disposals should be adopted and should include the necessary level of approval for the disposal. This information should be reported to the accounting department on a timely basis. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to District policy. Because the lack of such a formal policy over capital assets subjects the District to possibly not being able to prepare accurate financial statements or safeguard its capital assets, we consider this situation to constitute a material weakness in its system of internal controls.

C. Depreciation Expense

At the present time, the District has no procedure for calculating depreciation expense on its capital assets, which we consider to be a material weakness in the District's system of internal control. Historically, depreciation expense has been calculated by the District's prior auditors by reference to data that we understand came from the Maximus June 30, 2004 appraisal report adjusted for subsequent year's capital additions. Calculation of depreciation expense is a basic function that should be performed by District Management and allocated to functional categories. In connection with our audit, we estimated that the historical depreciation expense for the two year period ended June 30, 2006 was overstated by \$112,000.

Recommendation

We recommend that the District implement a policy and procedure to calculate depreciation expense on an annual basis and allocate it to functional categories.

Response

The district will implement a procedure to calculate depreciation expense on an annual basis and allocate it to functional categories.

D. Physical Inventory of Fixed Assets Is Needed

In the Office of the New York State Comptrollers Report, Anatomy of a Scandal Follow-Up Audit of Examination (Page 14), Period covered: September 2005 January 2006 it was noted that in March 2004, the Board of Education adopted a policy which addressed asset acquisition, disposal and physical inventory of these assets but it was not adhered to by management. In connection with our audit we learned that the District does not conduct any periodic physical counts of its capital assets and as discussed above, the Maximus appraisal valuation has not been updated for capital asset additions and disposals since June 30, 2004. Consequently, we asked management to observe a sample of 30 capital assets included in the Maximus report which was done by management without exception. We randomly selected an additional 10 items to observe and we were able to positively observe 8 of these capital assets and we were informed that one of the computers (fully depreciated at June 2006) in our sample that could not be located, was probably disposed of as part of 500 computers that were disposed of in the Spring of 2006. The District could not locate a refrigerator/freezer (asset 300748) purchased in 2002.

Recommendation

Based upon our procedures and in light of the scale of the fraud that was perpetrated by previous employees of the District, we believe that a complete physical inventory of all of the District's capital assets should be performed as soon as possible and in advance of the District's June 30, 2008 audit. Furthermore, we recommend that the District's internal auditors participate in the observation of these capital assets. Finally, we consider the lack of adhering to the policy of periodically observing capital assets to be a material weakness in the District's system of internal control.

Response

The district is in the process of securing an updated inventory of fixed assets. The service will be provided through our insurance company (NYSIR) at no charge to the district for 2007-08. The Assistant Superintendent for Business will be directed to present a proposal to the board for an annual update service and to develop procedures for the ongoing update during the year of the fixed asset inventory including the addition and deletion and depreciation of specific assets. The board will instruct its internal auditor to participate in the observation of capital assets.

Addendum B
Control Deficiencies

1. Special Aid Fund

The District participates in the State's summer program for handicapped pupils. The State funds eighty percent of this program with the General Fund providing the balance. The State has mandated that all revenues and expenditures related to this program be accounted for in the Special Aid Fund. We noted the Finance department did not reconcile student censuses to the New York State student verification list or the New York State payments for this program.

Recommendation

We recommend the Finance Department implement policies and procedures to reconcile the number of students in the program to the state approved verification list as well as to the remittances received as part of the State payment, and investigate any discrepancies.

Response

The business office will work with the special education department to reconcile student census to the Automated Verification Lists provided by New York State Education Department.

2. Special Purpose Fund (Expendable Trust)

It was noted during our audit that the District opened an additional fund to account for the Laura Adler Scholarship fund. The funds set aside for the scholarship fund represent restricted net assets. Restricted net assets should be accounted for in a Special Purpose Fund. The District had accounted for the Scholarship fund in an Agency fund. An auditor's adjusting journal entry was proposed and recorded by management to correct this error.

Recommendation

We recommend the periodic review of fund activities to ensure proper classification.

Response

The business office will continue to monitor the use of the Trust and Agency Fund on a monthly basis as well as the Expendable Trust in order to code receipts properly.

3. Accounts Receivable/Reserve for Long-term receivables

Our audit of the School District's records disclosed that there are approximately \$57,000 of accounts receivables from former employees and/or board members that remains unpaid at June 30, 2007. These amounts date back to 2004/05. Since the collectability of these amounts is not assured, a reserve for long-term receivables has been established in the General Fund.

Recommendation

Although a reserve has been established, it should not preclude the School District from utilizing available enforcement procedures to collect these monies. We also suggest that the School District continue consulting with counsel on the appropriate actions to be taken.

Response

The board of education continues to aggressively pursue to the greatest extent possible all accounts receivable and plans to continue to reserve for long-term receivables as long as there is a possibility of recovery.

4. Information Technology

This section presents our findings and recommendations pertaining to the District's information technology. These findings were also noted in the Office of the New York State Comptroller's Anatomy of a Scandal Follow-Up Audit Report of Examination (Pages 21-23) Period covered: September 2005 - January 2006. The findings are as follows:

A. Remote Access to Servers

We understand that certain information technologies Capital Computer Associates, Inc. consultants can connect exclusively to the District's WINCAP financial server without notifying the District and that system administrator logs/reports are not supported by WINCAP to alert IT personnel to the fact that someone has accessed the servers remotely. We understand that for security and authentication purposes, the origination and destination points are defined by specific IP address rules; from the WINCAP office in Albany, New York directly to and through Roslyn's firewall. We also understand that users can access via Citrix their "My Documents" folder on the server, and that administrator logs/reports are available to log user connectivity.

Recommendation

We understand that the District has asked WINCAP to modify its code such that administrator logs/reports would be available to the District; however, the vendor has not been responsive to this request. We recommend that the District continue to evaluate and review available security measures in an effort to further increased security surrounding access to the WINCAP Server. Ideally, there should be some control in place enabling the information technologies staff at the District to be alerted via pager, text message or a log that is reviewed daily whenever someone accesses the system remotely. This would enable the information technologies staff to verify the identity of the remote user on a timelier basis, although it would still be after a potential intrusion has occurred. District management would need to review the risk/benefit of remote access and related controls. We also recommend that the District implement a policy whereby the Citrix administrator reports/logs are reviewed periodically for unusual activity.

Response

The district will continue to evaluate and review available security measures in an effort to further increase security surrounding access to the WinCap server. The Citrix administrator will be directed to review reports and logs on a weekly basis to uncover unusual activity.

B. Password and User Account Deactivation Procedures

We understand that the District has a process of deactivating passwords and user accounts for terminated personnel which is triggered when information technologies Personnel receive the monthly Board of Education minutes containing the names of terminated employees. Consequently, the passwords and user accounts for such terminated employees could remain active for a period of time beyond the employee's actual termination date.

Recommendation

We recommend that the District implement a procedure whereby the Human Resources Department notifies the network administrator when an employee is terminated and that the employee's user password and user identification is promptly deactivated.

Response

The Human Resources department will promptly notify the network administrator of the termination or resignation of any member of the staff who has access to the information management system.

C. Disaster Recovery/Contingency Planning

We understand that there are currently no written disaster recovery plans in place for the information technologies systems that are maintained by the District.

Recommendation

We recommend that a formal written contingency plan be developed and tested for alternative processing in the event of a loss or interruption of the District's servers/network. Any agreements with other entities would need to be tested to make sure that compatible servers and tape drives exist at other facilities to enable any restore procedures to be successful. District employees would also need to be given written instructions and training in disaster recovery procedures.

Response

The district will develop a formal written contingency plan by June 30, 2008. It should be noted that the board of education has reorganized the central office staff to include a person at the district level who is responsible for Information Technology services throughout the district. The Assistant

Superintendent for Administration will continue to work with our computer services staff and our software contractors including WinCap to enhance our security with respect to remote access to servers, password and user account deactivation procedures and Disaster Recovery planning. We have already implemented a new procedure whereby all workstations are automatically "logged off" any servers when they are idle for an hour.

Addendum C
Other Comments

1. Statement of the Governmental Accounting Standards Board- Accounting and Financial Reporting for Employers for Post Employment Benefits Other than Pensions (GASB 45)

As part of the total compensation offered to attract and retain the services of qualified employees, many state and local governmental employers, in addition to pensions, provide other post-employment benefits (OPEB). OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separately from a pension plan. The Government Accounting Standards Board has issued Statement No. 45 *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* which establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities in the financial reports of state and local governmental employers.

Post-employment benefits (OPEB) are part of an exchange of salaries and benefits for employee services rendered, and are taken after the employee's services have ended. From an accrual accounting perspective, the cost of OPEB should be associated with the periods in which the exchange occurs, rather than with the periods, often many years later, when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to recognize the cost of the benefits in periods when the related services are received by the employer, provide information about the actuarial accrued liabilities for promised benefits associated with past services and Whether and to what extent those benefits have been funded and provide information useful in assessing potential demands on the employer's future cash flows The Statement would improve the relevance and usefulness of financial reporting by (a) requiring systematic, accrual basis measurement and recognition of OPEB expense over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

OPEB expenditures for governmental funds should be recognized on the modified accrual basis. The amount recognized should be equal to the amount

contributed to the plan or expected to be liquidated with expendable available resources. Essentially, there is not change from current practice for governmental funds. However, for proprietary and government-wide financial statements, the accrual basis must be used. The accrual method will require the calculations to be made using actuarial computations and will result in the recognition of a present value liability, which measures the value of OPEB benefits earned by employees during their tenure with the government and likely to be paid upon retirement. It should be apparent that this calculation will result in substantial amounts, due to the current employee cost of such benefits and their escalating costs. It should also be emphasized that there is no requirement to fund these benefits with current resources. The Statement merely requires the reporting of the value of the benefit primarily in the government-wide financial statements. The computations are extremely complex and the use of an actuary will invariably be required.

The Statement permits prospective implementation, that is, employers would be permitted to set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation would occur in three phases based on the government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose otherwise would be the same as in GASB's Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments. This Statement is effective for the District's fiscal year ending June 30, 2009.

Recommendation

The contents of this statement are highly complex and will require significant lead time to implement by the above mentioned implementation date. We would suggest that the District obtain a thorough understanding of the requirements and initiate planning for implementation in a prudent manner.

Response

The services of an actuary will be required for the GASB 45 analysis of OPEB (Other Post-Employment Benefits) liabilities such as health insurance in retirement. The Assistant Superintendent for Business will be directed to secure these services through an RFP process or other contract as allowed by General Municipal Law. Funds have been allocated in the 2007-08 budget for this purpose.

2. Continuing Emphasis on Governance

The District has established guidelines and policies that address the principles of governance for a municipality. As management is aware, recent years have seen a heightened awareness in government regarding the responsibilities of governing boards. Accordingly, we bring to your attention the following considerations:

A. Document Retention

The time period for which a District's routine accounting and financial documents should be retained needs to be established so that important documentation could be kept at hand, in the context of the cost-benefit considerations of storing such information over time. In today's environment, regulators and other interested parties may be concerned, for a variety of reasons, about the availability of the District's historical accounting and financial information.

Recommendation

Accordingly, it is important now that the School Board formally assigns to a specific representative the sole authority to delete, destroy, or discard the District's documents, based on the established policy's guidelines for the type of documentation to be maintained and the time frame for maintaining it.

Response

The board of education will direct its Records Management and Records Access Officers to develop a schedule for the elimination of documents within a policy that will present clear guidelines for a time frame.

B. Providing Access for Employee Comments and Concerns

This is an area frequently referred to as the "whistleblowers' provision", although the term "whistleblower" may sometimes have negative connotations in the public's mind that are not intended here. The intention is to provide a District's officers and employees with a mechanism that will permit them to communicate any concerns they may have regarding the organization, such as, but not limited to, what they may consider to be inappropriate behavior or actions by management.

Recommendation

A formal mechanism should be put in place and it is essential to this process that any communications from employees are completely confidential - to protect them from potential reprisals - and that their comments are received directly by the governing board or its audit committee, perhaps through an independent third party. The District should continue its' emphasis on governance.

Response

The board of education will continue to work to make sure that all employees have an opportunity to communicate without fear of reprisal any concerns they may have regarding the organization, such as, but not limited to, what they may consider to be inappropriate behavior or actions by management.